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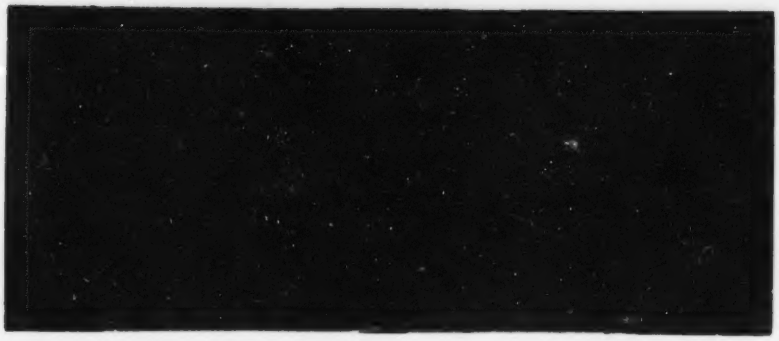

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ROUNDTABLE ON THE ASIAN CRISIS

-Draft Report-

February 1998

Asia Pacific Foundation
of Canada

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Fondation Asie Pacifique du Canada

Roundtable on the Asian Crisis

Vancouver

February 2, 1998

Draft Report

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Roundtable on the Asian Crisis: February and June 1998 Reports
Asia Pacific Foundation of Canada

Discussion of the Asian crisis included analysis of its national idiosyncrasies and structural change, the winners and losers of the crisis (Greater China as a winner and overseas Chinese in Southeast Asia as losers), and the positive medium to long-term prospects for Asia. These possible outcomes include an end to labour bottlenecks and an improvement in the quality of Asia's financial infrastructure. Discussion also included possible responses to and consequences of the crisis, such as the removal of fixed exchange rates, the threat of global deflation, the questionable ability of the US and Japan to increase their imports from the Asian economies, and corresponding debt issues. Businesses were approaching the crisis with cautious optimism, as business itself is not being cancelled, especially in the high-tech sector. The greatest impact of the crisis was considered to be in the traditional resource-based industries, with British Columbia companies especially vulnerable in this regard. It was also noted that Canada should give greater consideration to outward investment as a responses to the Asian crisis and begin to strengthen its investment in the region in light of potential inflows of profit, royalty and dividend repatriation. The dominant commodity mentality was considered to be a factor in the way that Canada has been affected by the Asian crisis and needed to be replaced by an entrepreneurial mentality, in essence identifying and meeting market needs in traditional primary industries.

The social impacts of the crisis were discussed in the second of the roundtables; these included large-scale labour migration, deteriorating social conditions and growing unrest due to growing unemployment, demoralisation, with variations among South Korea, Indonesia and Thailand as a result of differences among them regarding labour movements and democratic processes.

Policy responses to the crisis were noted to have to deal with choices between socio-economic groups, between consumption and investment, and among different ways of protecting consumption. The crisis was also noted to have created an opportunity to discuss labour and other social issues in the various regional fora. At the same time, it was reported that there was a growing intolerance of NGO activities in the region, especially those who publicised the plight of the poor and that many international aid agencies in the region are ill-equipped to confront the looming humanitarian crisis.

The report did not include any policy recommendations for Canada.

Introduction

The current economic turmoil in Asia has cast doubt on what was widely touted throughout the early 1990s as the coming of the Pacific Century. Some journalists and scholars are openly questioning if the Asian Miracle is over, or if it ever happened. Ironically, Canada's biggest show of commitment to Asia was in 1997, when it hosted APEC and declared Canada's Year of Asia Pacific (CYAP). A fitting end to the year would have been an upbeat APEC Leaders Meeting in Vancouver set against another record-breaking performance on Canada-Asia trade and investment. According to this score, the legacy of CYAP would have been a new era of closer political, economic, and people-to-people ties with Asia.

Instead, the dominant tune on Asia in the first part of 1998 has been a requiem. The Asian downturn, first dubbed as a "currency" crisis, then a "financial" crisis, is increasingly described without a qualifier -- what is going on in many parts of Asia has now strayed from economics into the social and political realms. As the crisis moves deeper into the non-economic spheres, it becomes more complex, unpredictable, and less prone to simple remedies. For a country which remains far less a Pacific economy in substance than it is in name, Canada runs the risk of responding to this complexity with either a business-as-usual attitude or a policy of radical disengagement.

To deepen its own understanding of the Asian crisis, the Asia Pacific Foundation of Canada organised a roundtable in Vancouver on February 2, 1998. Twenty-nine senior representatives from government, industry, and academia attended the meeting, which was chaired by Dr David Dodge, former Deputy Minister of Finance and currently Senior Distinguished Fellow in Public Policy at the University of British Columbia and Simon Fraser University. Robert Broadfoot, Managing Director of Hong Kong-based Political and Economic Risk Consultancy, gave the opening presentation entitled "Changes in the Asian Landscape". This was followed by over four hours of discussion. The President of the Asia Pacific Foundation, Dr William Saywell, presented a summary of the roundtable findings live on CBC Newsworld shortly after the meeting. The list of distinguished participants is found in Annex A.

This report summarises the roundtable discussions. In keeping with Chatham House rules, comments are not attributed to individuals. While every attempt has been made to be faithful to the points raised, some amount of interpretation and reordering is inevitable. There was no attempt to reach a consensus on any given point, and on some points, there were clearly differing opinions. Due to the time limitations, many insightful points raised were not given due attention. Some of these are presented, with limited commentary, in Annex B. There was strong support for follow-up roundtables, both to reassess the evolving situation and to discuss in greater depth specific aspects of the crisis such as the role of China, social impacts, and business opportunities for Canadian firms.

The Asia Pacific Foundation of Canada would like to thank the roundtable guests for their participation, without which this report would not be possible. Special thanks also to Dr David Dodge who did a superb job of moderating the meeting. Any errors and omissions are of course the sole responsibility of the editor.

1.0 Analysing the Crisis

National Idiosyncrasies and Structural Change

On a day which opened with the news that the Hang Seng stock market index shot up 14 percent overnight, it was perhaps surprising that no one took the view that the Asian crisis was merely a cyclical downturn. The feeling that changes underway in Asia were of a structural nature was widely held, even though opinions differed as to the pace and extent of the changes. Some of the signs of structural change already underway or likely to take place include:

- impending default of large amounts of corporate debt, especially by ethnic Chinese firms in the region
- imposition of capital controls
- decline in intra-regional trade and investment
- "dumping" of goods by exporters
- build-up of social pressures
- the growing role for the IMF as a "backbone" for weak governments.

According to one hypothesis, the transmission of the crisis across Asian economies, also known as "contagion", was due to the presence of national "idiosyncrasies". These idiosyncrasies were generally known in financial market circles (eg. pegged exchange rates, weak banks, asset bubbles in Thailand, political cronyism in Indonesia, and unproductive borrowing in Korea), but what caught most observers by surprise was the speed with which financial markets shifted their attention from one national idiosyncrasy to another. The speculative attacks on currencies were merely manifestations of market forces trying to get at a deeper malaise.

It was suggested that the markets are not finished with their correction of national idiosyncrasies and that even industrialised countries could be vulnerable. For North America markets, the test is likely to come in the run-up to the US presidential election, when trade pressures due to an anticipated flood of imports from Asia will coincide with a presidential election in the United States. Canadian financial markets will likely be tested at this time too, as the economy is impacted directly or indirectly by trade imbalances with Asia and by the possibility of American trade actions.

Winners and Losers in the Asian Crisis

One view has it that the winners are Greater China -- China, Hong Kong and Taiwan -- and the losers are overseas Chinese from Southeast Asia, Japan, and Korea. The optimism about Greater China is based on the fact that these three economies have so far been relatively unscathed by the current crisis, and the possibility that China will emerge as an important market for the region's exports. However, the participants were reminded of China's internal problems, principally the enormous debt load of the state-owned enterprises and the insolvency of its banking system. How China will manage these challenges is perhaps the single most important variable in Asia's medium to long term recovery. Many felt that should China fail to meet these challenges, a crisis far greater in scope than the present one would result.

The theory that the overseas Chinese from Southeast Asia will be amongst the losers is extrapolated from the belief that profound structural change is underway in economies hitherto dominated by overseas Chinese business networks. The crisis shows that

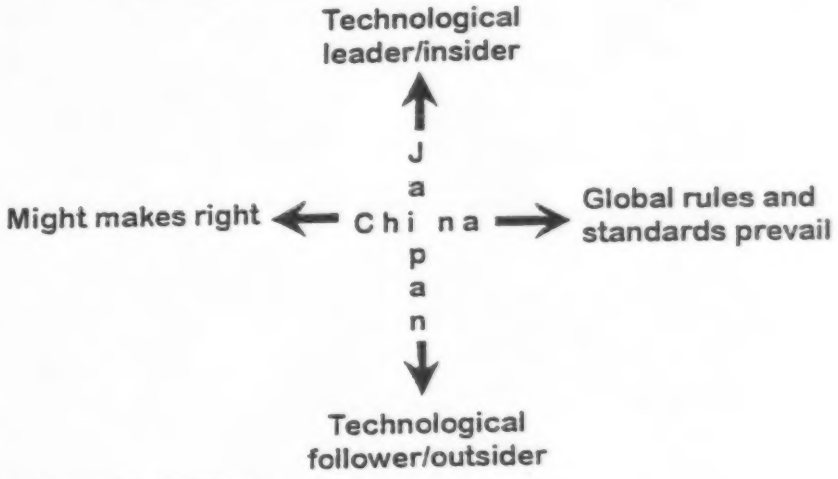
these networks overestimated the stability of their "idiosyncratic" pan-Asian commercial system. The overseas Chinese stand to lose the most from the removal of these idiosyncrasies or, less euphemistically, from the elimination of the special ties between many ethnic Chinese businessmen and political elites.

More frightening is the possibility that ethnic Chinese minorities in Southeast Asia will be victimised. In Indonesia, ethnic Chinese businesspeople are already being put up as scapegoats and have been subject to looting and police interrogation. Any spread of this sentiment across the region could be extremely destabilising. It could invite a response from China, which has historically taken an interest in the fate of the overseas Chinese, and as recently as the 1960s took in Southeast Asian Chinese with communist sympathies who were facing persecution because of their ethnicity. Even though Beijing now recognises that the overseas Chinese are citizens of their adopted lands, the commercial linkages with these communities have never been so strong, and could form the basis for an intervention from the mainland.

Many developing Asian countries had hoped that Japan would provide capital leadership in the wake of the crisis. However, this leadership has not materialised. Indeed, the notion of an Asian Fund first mooted by Japan at the Hong Kong IMF/World Bank meetings in September 1997 gained momentum right up to the APEC Leaders Meeting in Vancouver but has since that time disappeared. Japan's future position in Asia is by no means certain, but one important determinant could be whether it emerges as a technological leader/insider or a technological follower/outsider with respect to China. This kind of framework for thinking about alternative futures is illustrated in Figure 1.

Scenarios: A Framework for Thinking About Alternative Futures

Asia's future will hinge on China's relationship with Japan



Political & Economic Risk Consultancy, Ltd.

Some participants questioned if the China-Japan relationship was as pivotal to Asia's future as the China-US relationship, but all agreed that China is an important variable in any equation. Insofar as the US policy towards China is driven by domestic considerations, the run up to the 1999 US Presidential election, which will likely coincide with a growing US current account deficit, will be an important test of that key relationship. A deteriorating relationship would have implications for China's accession to the WTO, and the level of American support for China's bid. This in turn would have implications for China's willingness and ability to play by global rules of trade and investment.

After the Crisis

Despite the very serious nature of the current crisis, participants felt that the medium to long term prospects for Asia remain very positive. Some of the possible outcomes of the crisis include:

- A quantum leap in the quality of Asia's financial infrastructure and a much more competitive environment for financial services. The major American and European financial institutions stand to benefit the most from these changes to the financial landscape. Asian banks will have to ramp up their capabilities dramatically in order to compete in this tougher business environment. The corollary to this point is that changes in Asia will further encourage the current wave of bank mergers, which could leave the world with a relatively small number of global banks in as little as 10 years.

- An end to labour bottlenecks, giving investors in Asia a chance to raise their hiring standards and improve the quality of their human resources.

- A more China-focused Asia will emerge, but it remains unclear whether China will play by global standards more than it has in the past. It was emphasised that this variable can be influenced by western industrialised countries, and that Canada may have a particularly useful role to play by continually engaging China and encouraging it to play by global rules.

- For industrialised country firms, the change in the relative benefits of exporting to or investing in Asia will impact on corporate strategy. To the extent that this change favours overseas investment, it is likely to create political tensions domestically because of potential de-industrialisation and job losses in developed economies.

- Over a five-year horizon, several Asian stock markets are expected to outperform the US stock market by at least three times. Exchange rates will, however, continue to be a major risk factor.

2.0 Responding to the Crisis: Money, Markets, and Moral Hazard

The early phase of the crisis, which was marked by denial on the part of some Asian economies and a lack of publicly-available information on the extent of the problems, is now largely over. The precipitous declines in Asian currency and equity market values have forced the most seriously-affected countries to seek help from the International Monetary Fund (IMF). This is a familiar role for the IMF, yet it is challenged as never before because of the number of countries requiring assistance and the magnitude of their problems. Some participants felt that the more rapid spread of contagion and the greater severity of the crisis compared to previous episodes is due in part to technological advances in financial markets, the creation of new financial instruments, and the influence of a relatively small number of global funds with enormous assets. The role of hedge funds as such -- a subject that was given much attention during the APEC Leaders' Meeting, mostly at the Malaysian Prime Minister's insistence -- was thought to be small.

Will the crisis lead to international restrictions on capital mobility? The roundtable was reminded of Charles Kindleberger's famous dictum, that it was impossible to sustain a system with fixed exchange rates, capital mobility, and free trade. While a few participants raised the prospect of international efforts to restrict capital mobility as a solution to the Kindleberger dilemma, the majority felt that fixed exchange rates would be the first to go. All participants agreed, nevertheless, that this issue should be closely watched, especially as Asian countries grope for solutions to the continued volatility of their currencies.

Paradox of Thrift

To the extent that the crisis has a second and perhaps even third wave, and that the standard IMF prescription is handed out in each round, it was pointed out that the global economy could be faced with a "paradox of thrift". The paradox, first put forward by John Maynard Keynes, is that while it may be in the best interest of individual actors in an economy to reduce spending during an economic downturn, it would not be in the interest of the economy as a whole if most or all economic actors reduced spending at the same time. A related threat is that of global deflation. Generally, participants felt that while deflation in the sense of falling prices is already a reality, especially in international commodity markets and more widely in Japan, the threat of a 1930s-type depression is less likely because of industrialised governments' ability (and presumed willingness) to act in a counter-cyclical fashion, especially on monetary policy.

Even if global deflation does not set in, the ability of the Asian economies to export their way out of the crisis will depend on whether or not there is sufficient global demand for their exports. The United States and Japan are the two most important destinations for Asian exports, yet the ability of either economy to increase imports on a large-enough scale is questionable. Table 1 shows principal export destinations of major Asian economies, and their continued reliance on the US and Japanese markets.

Who will be the Engine of Growth?

The United States is already experiencing its longest economic expansion in the post-war period, and there are doubts if this can carry on for much longer. Furthermore, it is not clear that either financial markets or the US electorate will tolerate a burgeoning US current account deficit and the potential loss of jobs in some sectors, notably automobiles. Indeed, the trajectory that the IMF has set out for global recovery, as contained in its December 1997 World Economic Outlook, projects the US current account deficit to be 2.7 percent of GDP by 1998, a level not seen since the mid-eighties when the US dollar came under severe pressure, leading to the Plaza Accord of 1985 and the rapid appreciation of the Yen.

Table 1

Principal Export Destinations (> 3% of export value, 1995)

	China	HK SAR	Japan	Singapore	Korea	ASEAN 4[1]	US	EU
China		24	19		5	4	17	13
HK SAR	33		6	3		4	22	15
Indonesia	4	4	27	8	6	5	14	15
Japan	5	6		5	7	12	28	16
Malaysia	3	5	13	21	3	6	21	14
Philippines		5	16	6	3	7	36	17
Korea	8	8	14	4		8	20	13
Singapore		9	8		3	27[2]	18	13
Thailand	3	5	17	14		5	18	15

Reading this table: Thailand's exports to Japan represent 17% of the value of total Thai exports while Thailand's exports to Korea account for less than 3% of the total value of Thai exports.

[1] The ASEAN 4 countries are: Indonesia, Malaysia, the Philippines and Thailand.

[2] Trade data published in the *Singapore Trade Statistics* by the Singapore Trade Development Board excludes trade with Indonesia.

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Research and Analysis

Source: United Nations

Japan has been in recession or growth recession for most of the 1990s and does not look promising as an engine of growth for the world economy. The ongoing problems in the Japanese financial system have been exacerbated by the Asian crisis, and the government's attempts to reflate either through fiscal or monetary policy have so far not had lasting success. Japan is different from the other Asian economies in that its debt problem is a domestic one and that the Japanese government has the means to address the problem using its own resources rather than relying on foreign financing. However, the willingness of the government to take swift remedial action, which would in effect mean the failure of more financial institutions, remains highly questionable.

The absence of an obvious engine of growth for the world economy led many participants to be doubtful about a rapid export-led recovery for the Asian economies.

Debt vs Equity in the Evolving Crisis

The financial dimensions of the crisis are moving into the next phase, which will be dominated by questions of debt moratoria, nationalisation of debt, and debt restructuring / rescheduling negotiations. With it will come a new set of issues such as bankruptcy legislation (some of the affected economies have very poorly developed laws), competition policy, debt-equity swaps, and securitization of debt, which could lead to the deepening of Asian bond markets.

On the side of the most severely-affected banks and their national regulatory agencies, the emerging issue will be that of write-downs -- not a question of if, but when and how much. Tables 2 and 3 summarise the debt profile of the major affected Asian economies and the exposure of international lenders, including Canadian banks. Unlike the Latin debt crisis of the 1980s, American banks are much less exposed to Asian debt and so far, there has been virtually no talk of systemic risk to the global financial system. While bank lending is not likely to rush back to Asia, equity investors, having already "written down" their losses, will be looking for the best time to return to Asian markets.

It was suggested that this return of funds to Asia could be massive and rapid for two reasons: i) the very high level of liquidity held by fund managers who are scouring the

Table 2: Foreign Debt for Selected Asian Economies (millions of US dollars, end of June 1997)

	Indonesia	Malaysia	Philippines	Thailand	Korea	China	Hong Kong	Taiwan	Singapore
Total	58,726*	28,820	14,115	69,382	103,432	57,922	222,289	25,163	211,192
By Maturity									
<1	34,661	16,268	8,293	45,567	70,182	30,137	183,115	21,966	196,600
1 ~ 2	3,541	615	326	4,592	4,139	3,748	4,417	236	1,719
>2	17,008	8,248	4,001	16,491	16,366	19,426	24,974	2,598	9,818
unallocated	3,516	3,689	1,495	2,732	12,745	4,611	9,783	363	3,055
Percentage of debt <1 year	59	56	58	66	68	52	82	87	93
Debt Service/GDP (%)**	10.5	8.4	6.0	7.1	NA	1.9	NA	NA	NA
By Borrower									
banks	12,393	10,486	5,485	26,069	67,290	24,700	143,974	15,497	174,874
public sector	6,506	1,851	1,855	1,968	4,390	7,656	1,215	398	1,031
non-bank private	39,742	16,460	6,772	41,262	31,680	25,562	75,291	9,251	35,085
unallocated	85	23	3	83	72	4	1,809	17	202
Public debt as a % of Total	11	6.4	13	2.8	4.2	13	0.5	1.6	0.5
Total owed to Canadian banks:	838	266	502	1,013	1,325	859	4,772	1,724	4,084
Percentage of Total	1.4	0.9	4	1	1	1.5	2	7	2
Total owed to US banks:	4591	2400	2816	4008	9964	2932	8847	2507	5215
Percentage of Total	7.8	8.3	20	5.8	9.6	5.1	4.0	10	2.4
Total owed to Japanese banks:	23,153	10,489	2,109	37,749	23,732	18,731	87,354	3,008	65,035
Percentage of Total	39	36	15	54	23	32	39	12	31
Total owed to EU 3**	14729	10661	4745	15464	26928	21483	75044	11312	78995
Percentage of Total	25	37	34	22	26	37	34	45	37

* Figures for Indonesia, as with others on this table, are subject to ongoing adjustment. The Indonesian government announced in early January that, as of September 30, 1997, its foreign debt totalled U.S.$133.3 billion, U.S.$65.6 billion of which is owed by the private sector. Recently, South Korea's foreign debt was listed at U.S.$153 billion, of which 60% (U.S.$92 billion), was due within one year.

** EU 3 = France, Germany and the United Kingdom

Table 3: Canadian Bank Lending to Selected Asian Economies *(millions of Canadian dollars, end of 1997)*

	South Korea	Thailand	Indonesia	Malaysia	Philippines	Total	Hong Kong	Percentage of Loan Portfolio
Royal Bank	$1,300	*	$365	*	*	$2,000	NA	0.8
Bank of Nova Scotia	$1,100	$770	$325	$550	$500	$3,245	$1,400	4.75
Toronto-Dominion	$242	NA	$520	NA	NA	$915**	NA	1.0
Bank of Montreal	$783	$67.5	$51.7	$30.6	$6.7	$939.5	$24.4	0.8
CIBC	$305	$148	$381	$126	$65	$1,025	$2.8***	2.0
National	$73	$7	NA	NA	NA	$116****	NA	NA

Source: The Financial Post, The Globe and Mail, Press Releases from various banks.

* The sum of the Royal Bank's exposure to Thailand, Malaysia and the Philippines is estimated to be no more than C$320 million.
** This figure represents the Toronto Dominion Bank's exposure in all countries listed except for Hong Kong.
*** This figure is drawn from CIBC's annual report, while all others for CIBC came from a press release received from CIBC's Corporate Communications Office.
**** According to the Globe and Mail (January 21), the figure is stated officially as U.S.$80 million. Conversion was done at 1.45 based on the exchange rate on January 23.

world for returns; and ii) the perception that industrialised country equity markets (in particular the US) are becoming overvalued. Some participants feared that the rush of funds back to Asia might lead to a starvation of capital for Canadian firms, especially small-to-medium size niche-players.

3.0 Risk and Reward: Implications for Business

Business representatives at the roundtable briefed the group on the impact of the crisis on their companies. The feeling was one of cautious optimism. Business was not as good as might be expected, but there was still money to be made in Asia. In the high technology sector, Asian clients during the years of heady growth were inclined to purchase the most sophisticated (and expensive) products with all the bells and whistles included, irrespective of their needs. In the present environment, many of them are turning to less extravagant alternatives rather than cancelling the purchases altogether.

Current forecasts for Canada-Asia people-to-people exchanges are surprisingly positive, under the circumstances. While travel between Canada and Hong Kong / Japan is expected to be flat or slightly positive in 1998, travel to and from China and Taiwan is expected to show strong growth. Even in the area of Canadian education exports, the early signs are that the level of enquiries at Canadian Education Centres in Asia has not declined. The traditional Asian emphasis on investing in a quality education combined with the improved competitiveness of Canadian schools will likely temper the decline in foreign student enrolments in the years ahead.

It is in the traditional resource-based industries that the impact of the crisis will be greatest. Asia's recent wane in demand for primary commodities and the rising competitiveness of Asian producers come at a time when commodity prices in general are falling. The combination of these effects poses a serious threat to resource-based exporters such as the forestry products and mining industries. British Columbia is especially vulnerable given its dependence on primary products and on Asian markets. In the area of softwood lumber, the problem is further compounded by the threat of countervail measures by the United States.

Outward Investment: A Neglected Option?

The threat of heightened competition from Asian producers because of massive currency devaluation was discussed at some length. It was pointed out that many Asian producers, especially in the most severely affected economies, may not be able to take advantage of the lower currency if they also have high levels of foreign debt. Even companies without significant foreign debt exposure are being starved of trade credits, which makes it impossible for them to export. Yet, even if these companies go under, the assets previously under their control are likely to be acquired by other parties, probably international competitors, who will then be in a position to take advantage of the lower cost of production.

Indeed, many companies from industrialised countries are looking for bargains in the aftermath of the crisis. For some of them, the need to invest overseas may have as much to do with survival as it has to do with growth. Yet there has hitherto been little such discussion in the Canadian corporate sector. The unwillingness to look at Canadian outward investment as a response to the Asian crisis is consistent with Canada's weak foreign direct investment record in Asia and may have as much to do with government and public attitudes to outward investment as it has to do with corporate decisions.

The popular view of Canadian outward investment is that it exports jobs and returns little benefit to Canada. However, this view overlooks the potential for sizeable inflows of profit, royalty and dividend repatriation to Canada that may represent a more steady stream of income than export revenues based on commodity sales. Furthermore, outward investment can allow for a rationalisation of corporate functions which would tend to retain in high-value jobs in Canada such as strategic planning, finance, design and marketing, and research and development. There is probably more that government can do to correct the generally negative image given to outward investment.

From Commodity Mentality to Entrepreneurial Mentality

The problems facing the primary resource sector are a perennial issue for the BC economy, and to a lesser extent, the Canadian economy. BC's resource sector is

facing a long-term decline that can be arrested to some extent by finding new markets, cost-cutting, and overseas investment, but the economy as a whole will be dragged down if the pace of diversification into higher-valued industries does not quicken.

The problem is not in the primary resources themselves but in the commodity nature of these types of businesses, which are characterised by given world prices, movement of capital to lowest-cost production bases, and the use of yesterday's technologies. In this sense, automobiles and semiconductors may also be considered commodity industries. One generally neglected aspect of the Asian crisis, for example, is the downturn in the global semiconductor/electronics market which preceded the financial crisis. The continued weakness in these markets will exacerbate the economic slowdown in Malaysia, Singapore, and Korea.

Participants agreed that the dominant commodity mentality in Canadian business has to be replaced by an entrepreneurial mentality. This would mean drawing on Canada's most important competitive advantage, which is brain power. It was pointed out that such a transformation is tantamount to a cultural change in Canadian society. The dominant question in the entrepreneurial mentality is not "how to engineer a product" but "how to identify and meet market needs". Participants gave examples of Canadian companies that demonstrated this kind of ingenuity, including BC Hothouse -- a producer of high-end vegetables -- and the hog industry in Saskatchewan, which not only survived the elimination of the Crow rate but has grown significantly in recent years as a result of innovation.

As the examples show, the entrepreneurial mentality can be applied in "traditional" primary industries, and not just in the area of high-technology or the service sector. The shift to a new mentality is a lesson not just for Canadian companies currently selling to Asia but for all companies, given the global dimensions of the Asian crisis. It is also a challenge that should involve all the major economic actors, including labour unions, who have an important role to play in preparing workers for the inevitable structural changes in the Canadian economy.

ANNEX A

PARTICIPANT LIST, VANCOUVER ROUNDTABLE, FEBRUARY 1998

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Annex B

"Sidebar" Issues Raised During the Roundtable Discussion

Labour market conditions
One outcome of the crisis is sure to be unemployment, a problem which many Asian economies have not dealt with in years. The repatriation of foreign labourers back to Indonesia and the Philippines might affect the political and economic stability of both the source and host economies. Participants also wondered about potential changes in corporate investment and production decisions, with a return to more labour-intensive production processes, and the effects this would have on the composition of trade flows and regional competitiveness.

Reserve currency issues
Will the rise of the European Monetary Union (EMU)'s Euro threaten the dominant role of the US dollar in international trade and as a reserve currency? If so, what are the impacts of this on the US economy? Will a successful Euro affect the ability of the US economy to help pull Asia out of crisis?

Nationalisation of debt
In contrast to the Latin American debt crisis of the early 1980s and the Mexican peso crisis in 1994, both of which were characterised by sovereign debt problems, the bulk of Asia's debt is corporate in origin. In the absence of clearly defined bankruptcy law, how will Asian financial systems deal with widespread corporate defaults? Will debt and real estate securitisation emerge? Will an active corporate bond market evolve? Will much of the corporate debt be effectively nationalised, as is happening in Korea? Is nationalisation of corporate debt a superior alternative to the development of a financial system capable of debt renegotiation or ownership changes? Will nationalisation of corporate debt thus mitigate the need for greater transparency in Asian financial systems?

Reinvention of international organisations
Rather than fixating on the problems of Asian debtor countries (with the attendant moral hazard and risk of global deflation), would the IMF would have done better to focus its attention on Japan from the late 80s onward? This option was of course not available to the IMF, which has virtually no leverage over creditor nations such as Japan. This issue and the broader question of who has international responsibility and authority on matters such as bank regulation, supervision, and transparency of the financial sector, are at the heart of the question on the reform of the IMF. If more effective surveillance and information gathering and dissemination are the keys to averting future crises, who will perform this monitoring function? Will the IMF become an international auditor? Is the recent (and unprecedented) criticism of the IMF by the World Bank a sign of things to come? What about the role of the Asian Development Bank (ADB)?

Association of South East Asian Nations (ASEAN)
In what was to be ASEAN's year of triumph, the coup and subsequent abandonment of Cambodian accession in 1997 only added to the challenges posed by the financial problems in the region. At stake is the potential need to compromise on one of the

pillars of the ASEAN way: non-interference in the domestic affairs of its member states. If ASEAN is to play an effective leadership role in resolving regional security issues, averting future financial crises, or brokering relations between the region and the West, such compromise may be unavoidable.

Management Responses
In light of the Asian crisis, some Canadian banks and financial institutions may shift their attention (i.e., human and financial capital) away from their international operations and focus on domestic opportunities instead. Aside from leaving these institutions ill-equipped to identify opportunities in the wake of the crisis, this adjustment in priorities will affect their capacity to analyse the full impact of the crisis on the Canadian economy. Furthermore, it may hamper their ability to see the subsequent impact the crisis may have on countries like Brazil and, in particular, Russia — two countries that some expect will experience similar difficulties in the near future.

Transparency
One of the expected outcomes of the Asian crisis is increased transparency in those countries that have been subject to IMF restructuring. The question remains, however, how long this renaissance will last as some participants suggested that it may be for a limited time only. The governments concerned may only meet the IMF's demands for transparency until the crisis is over, after which they will return to 'business as usual'.

Moral Hazard
While the issue of moral hazard was raised by some participants, no consensus emerged as to whether or not this was a significant concern. While some cited the apparent failure of banking and financial executives to undertake thorough risk assessment, others wondered if the banks and financial institutions that made imprudent lending decisions through the late 1980s/early 1990s were bearing their share of the responsibility.

Implications for Canadian Foreign Policy
The social impacts of the crisis, including a possible rise in poverty, rural-urban migration, widespread displacement of workers, persecution of minorities, and the use of violence by authorities, will be watched closely by NGOs. They will put considerable pressure on the Canadian government to respond and could, in this way, colour Canada's overall foreign policy stance towards Asia. Asian leaders, for their part, will be preoccupied with the crisis for the foreseeable future and will be inclined to give Canada, a middle power with an almost insignificant presence in the region, less attention in foreign and economic policy matters. Canada will have to work harder to be seen and heard in Asia.

Backlash against the West
A prolonged crisis will lend support to the as-yet small constituency that is portraying the economic downturn as a western conspiracy of some sort. Populist politicians and their followers will lash out at the IMF and will strongly oppose foreign companies attempting to buy up devalued domestic assets. Yet, the role of the IMF as a whipping boy for domestic political purposes is well known and perhaps even one that the Fund grudgingly plays along with. Domestic politics will generate opposition to further trade liberalisation on the grounds of protecting local companies still reeling from the financial

crisis, but this has to be set against IMF/WTO/APEC commitments and the desire of governments for international respectibility. There will also be the inevitable talk of greater Asian interdependence and self-help. Some economies have become less safe places for westerners to work, but so far this development has less to do with anti-western attitudes than with domestic unrest.